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No. _____

IN THE

Supreme Court of the United States

ADVANCED DISPLAY SYSTEMS, INC., and BAO GANG WU,

Petitioners,

—v.—

KENT DISPLAY SYSTEMS, INC., KENT RESEARCH CORPORATION, and KENT STATE UNIVERSITY,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

After a jury resolved every issue favorably to Petitioner in this patent infringement case, the District Court denied Respondents' post-trial motions and rendered judgment on the jury verdict. The U.S. Court of Appeals for the Federal Circuit reversed the District Court's post-trial rulings, granted a new trial both for "newly discovered evidence" and as a sanction under the doctrine of "inherent powers," and vacated the jury's findings of patent non-infringement and patent invalidity. The questions presented are:

1. Whether an appellate court may reverse a District Court's denial of a motion for new trial for "newly discovered evidence" based upon the appellate court's own determination of the movant's entitlement to relief, when the District Court has fully considered the motion, made a decision not wholly unsupported by the evidence, and committed no error of law.

2. Whether an appellate court may grant a new trial for "newly discovered" evidence when there has been no determination, based upon the entire factual record, that the alleged "newly discovered" evidence would have probably changed the outcome of the case if admitted into evidence at trial.

3. Whether the Seventh Amendment's Reexamination Clause permits an appellate court to consider facts that were tried to a jury, and to assess the weight and persuasiveness of such facts, in reversing a District Court's denial of a new trial for "newly discovered" evidence.

4.Whether an appellate court may, consistently with Due Process, impose sanctions under the "inherent powers" doctrine, based upon that court's *de novo* finding of bad faith conduct of a litigant's counsel in the District Court.

PARTIES TO THE PROCEEDING BELOW

The parties to the appeal in the United States Court of Appeals for the Federal Circuit were:

1. Kent Display Systems, Inc. (Appellant)
2. Kent Research Corporation (Appellant)
3. Kent State University (Appellant)
4. Dr. Bao Gang Wu (Appellee)
5. Advanced Display Systems, Inc. (Appellee)

Also permitted to intervene in that Court, for the purpose of presenting a Petition for Rehearing, was Kevin C. Nash, counsel for Advanced Display Systems, Inc.

CORPORATE DISCLOSURE STATEMENT

This document is filed on behalf of a nongovernmental corporation, Advanced Display Systems, Inc., located in Amarillo, Texas. Advanced Display Systems, Inc. has no parent corporations. Delta Electronics, Inc., a publicly held company located in Taiwan, owns 10% or more of the corporation's stock. No other public company owns 10% or more of the corporation's stock.

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CITATION TO THE OPINIONS AND ORDERS BELOW

The Opinion of the U.S. Court of Appeals for the Federal Circuit is reported as Advanced Display Systems, Inc. v. Kent State University, 212 F.3d 1272 (Fed. Cir. 2000). The text of the opinion is set forth in the Appendix. (A1-A31). The opinions, findings, and conclusions of the District Court on the post-trial motions were orally given and transcribed, and are also set out in the Appendix (A36), as are its written orders denying Respondents' post-trial motions (A32,A34), its judgment (A44), and the jury's verdict (A47).

STATEMENT OF THE BASIS OF JURISDICTION

The case was before the U.S. District Court for the Northern District of Texas, Dallas Division ("the District Court") under 28 U.S.C.§§ 1331 and 1338. The case was properly before the United States Court of Appeals for the Federal Circuit (the "Federal Circuit") on the basis of 28 U.S.C. § 1295. The Opinion of the Federal Circuit was released on May 18, 2000, and the Petition for Rehearing en Banc of Petitioner Advanced Display Systems, Inc. was timely filed and thereafter denied without opinion on August 24, 2000. (A40). Jurisdiction is now invoked under 28 U.S.C § 1254 (1).

CONSTITUTIONAL PROVISIONS INVOLVED

U.S.CONST., Amendment VII, which provides as follows:

> "In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law."

U.S.CONST., Amendment V, which provides as follows:

> "No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval

forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offence to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation."

STATEMENT OF THE CASE

This is a patent infringement case. The Respondents (collectively, "Kent") are Kent State University ("KSU"), Kent Research Corporation ("KRC"), and Kent Display Systems, Inc. ("KDS"). Kent alleged that a cholesteric liquid crystal display that ADS demonstrated at a May, 1996 trade show was made, used, sold, or offered for sale in violation of 35 U.S.C. § 271. Allegedly, the device infringed U.S. Patent Number 5,453,863 (the "West Patent"), which was issued on September 26, 1995. ADS denied that the device infringed the West Patent and asserted that the patent was invalid for anticipation (35 U.S.C § 102) and obviousness (35 U.S.C. § 103).[1]

A. The Proceedings Below

A two-week long jury trial was held on the patent claims. At no time during the trial did Kent move for a judgment as a matter of law ("JMOL") under Rule 50 of the Federal Rules of Civil Procedure. On December 1, 1997, the jury returned a verdict favorable to ADS on every issue. The

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1 ADS also asserted claims based upon alleged false statements by Kent that ADS had "stolen" its technology. At Kent's request, all patent-related claims were ordered to be tried in one jury trial, and a second trial before another jury was to resolve the non-patent claims, after discovery on the latter claims had taken place These claims were later dismissed without prejudice by ADS after the verdict on the patent-related claims. This case involves only the patent-related claims.

jury found, *inter alia*, that ADS did not infringe any claims of the West Patent, that all claims of the West Patent were anticipated by U.S. Patent No.4,097,127 (the "Haas '127 Patent), and that the subject matter of the West Patent's claims, as a whole, would have been obvious to one of ordinary skill in the art (A47-A51). Having failed to move for JMOL during the trial, Kent had no proper means by which to argue that any of these findings were erroneous.

Yet, after the trial, in an attempt to attack the verdict notwithstanding the failure to move for JMOL, Kent filed several motions seeking a new trial. Kent's motions argued not only that the verdict was "against the great weight" of the evidence, but also that it should be vacated either on the basis of "newly discovered" evidence pursuant to Rule 59 of the Federal Rule of Civil Procedure, or as a sanction against ADS and/or its attorneys under the Court's "inherent powers." *See* Chambers v. NASCO, Inc., 501 U.S. 32, 43-46 (1991).[2]

Kent's motions centered upon the deposition given by an ex-employee of ADS (Hongxi "Victor" Zhou) prior to the trial of the patent issues. The deposition was given in an unrelated suit in which ADS was a party but Kent was not. In that deposition, which was never transcribed and was not produced to Kent in pre-trial discovery, Zhou was critical of his former employer. The deposition contained testimony by Zhou that (1) ADS personnel made a photograph of the circuitry of a copyrighted KDS device to discover the part number (Supertex HV6008PG) for the semiconductor "driver" chip it employed, then used that information to design an ADS device; (2) that an agent of Kent provided to ADS a "formula" and a "powder"

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2 Two of the three Respondents, KSU and KRC, subsequently withdrew and/or abandoned the motion for sanctions, in response to a threatened Rule 11 sanctions motion, thus the District Court ultimately ruled only upon, and denied, the motion of KDS. (A34).

relating to certain cholesteric materials or additives;[3] and that (3) ADS had made many unsuccessful attempts (even after obtaining such information) to design a working cholesteric LCD. According to Zhou, ADS' acquisition of information from Kent occurred in 1993 - some *two years before the West Patent issued.*

Although Kent claimed in its post-trial motions that this evidence was "newly discovered," Zhou had in fact been called by Kent as a witness during the jury trial of the patent issues, and Kent's trial counsel repeatedly acknowledged her awareness of the deposition during her questioning of Zhou at trial.[4] Moreover, the testimony elicited at the deposition was similar, if not identical, to the testimony that Zhou gave to the jury at the trial on the patent claims.[5] In fact, at the patent trial, Zhou brought with him (and Kent introduced into evidence) a copy of the very photograph that was allegedly taken by ADS personnel (a photograph of a circuit board bearing the inscription "KDS Copyright 1993"), and Zhou described to the jury how the photograph was taken and the uses to which it put by ADS (A72-A82). Based upon its verdict, the jury was apparently not persuaded that Zhou's testimony showed either non-obviousness or infringement of the West Patent.

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3 There was *undisputed evidence* presented by ADS to the District Court that the materials to which Zhou referred related only to a "polymer stabilized" technology that had no possible relation to the West Patent and were, in any event, publicly described in patents and publications. Despite the fact that this evidence was uncontested, the Federal Circuit failed to mention it in its Opinion.

4 The testimony that Kent elicited from Zhou at trial is set forth in full in the Appendix (A69-A89), as are portions of the cross-examination at trial (A90-A103).

5 Indeed, in denying Kent's motion for new trial, the District Court so found. (A37-A38).

The District Court, after allowing Kent an extraordinary amount of time to present post-trial motions and briefs, held a hearing on Kent's post-trial motions in August, 1998 (more than *nine months* after the verdict was received) (A36-A39). At the conclusion of the hearing, the District Court found that: (1) there was *no relevant evidence that Kent was prevented from using at trial* (A37,A39); (2) the absence of the Zhou deposition transcript had no material adverse effect on Kent's trial preparation or presentation (A38); and (3) the testimony was of questionable relevance to the claims of the West Patent [6] and was, in any event, cumulative of the trial testimony (A37). The District Court also refused to find that ADS or its counsel had acted in "bad faith" (A38,A39), in apparent response to both ADS' presentation of evidence negating bad faith [7] and Kent's failure to present evidence which would support a finding in its favor. Thus, in addition to denying the motions for new trial (A32), the District Court declined to grant a new trial to KDS as a "sanction" under its "inherent powers" (A34).[8] The District

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6 The District Court's claims construction of the West Patent (A50-A62) fully supported the Court's observation that the evidence was of questionable relevance to those claims. In fact, at trial one of the named inventors of the West Patent, Dr. John West, admitted that the patent was *not about a circuit board* and that he would have been incapable of inventing such a device.

7 For example, ADS presented uncontroverted evidence to the District Court that showed that the counsel in the case had agreed that issues relating to alleged "theft of technology" had no relevance to the patent-related claims and that discovery into such issues should be postponed until after the verdict on the patent claims. The Federal Circuit ignored such evidence in finding that ADS counsel acted in "bad faith."

8 The District Court stated that while it suspected an attempt to conceal the deposition from Kent, its "unsubstantiated suspicions" would not be a sufficient basis for sanctions. (A38). Moreover, the court noted that the only relief Kent wanted, a new trial, was inappropriate (A39.).

Court also rejected Kent's contentions that the verdict was against the "great weight" of the evidence (A32-A33). It rendered judgment on the jury verdict (A44-A45), and Kent then filed Notices of Appeal to the Federal Circuit (A65-A68).

In its appeal to the Federal Circuit, Kent confronted an impregnable wall of precedent holding that a litigant cannot challenge on appeal any fact findings by a jury, if it did not move for JMOL at trial. Kent also faced decisions from this Court holding that no appellate relief can be granted for "newly discovered" evidence where the district court denied the motion and review is sought on the grounds that it committed factual errors. United States v. Johnson, 327 U.S. 106, 111 (1946) and cases cited therein. Finally, Kent faced the inescapable fact that the District Court had declined to exercise its "inherent powers" to grant a new trial and had explicitly declined to find any "bad faith" on the part of ADS or its counsel.

Yet, on May 18, 2000, the Federal Circuit issued an Opinion overturning not only the jury's verdict on anticipation, obviousness, and infringement, but also the District Court's rulings on the motion for new trial and the motion for sanctions. With regard to obviousness, the Federal Circuit found Zhou's deposition testimony (which covered much the same ground as his trial testimony) to be "persuasive," "compelling," and "highly probative" evidence of non-obviousness (A23-A25). While acknowledging that Zhou's testimony was not itself even *relevant evidence* of infringement (A28),the Federal Circuit opined that it had a bearing on infringement under the doctrine of equivalents and that Kent might have done things differently if it had possessed the deposition transcript (A28-A29).[9] Despite the District Court's finding that Kent was not prevented

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9 This finding, rendered *de novo* on appeal with no supporting evidence in the record, was contrary to the District Court's conclusion that Kent suffered no material prejudice by not having the deposition earlier (A38).

from eliciting at trial any relevant testimony in the deposition (A38-A39), the Federal Circuit made its own findings that Kent did not know of such facts, used "due diligence" to discover and present them at trial, and that the "constellation of facts" in the deposition were "potentially outcome determinative" (A25-A27).

Apparently to furnish an alternative basis to support its decision to grant a new trial for "newly discovered" evidence, the Federal Circuit also granted a new trial as a "sanction" under the doctrine of "inherent powers." *See* NASCO, *supra*. In doing so, the Federal Circuit found *de novo* (in the face of the District Court's specific refusal to find) that ADS counsel had acted in "bad faith" in not producing the Zhou deposition transcript in discovery (A31).

B. Factual Background

The issues presented by this Petition do not turn on the facts relating to the underlying technology. However, an understanding of the nature of the technology, its history, and its relation to the West Patent may assist the Court in determining the issues.

ADS and Kent are both involved in the field of cholesteric LCDs. A cholesteric LCD is typically made by combining a cholesteric liquid crystal "cell" with an electrical apparatus that is used to change molecules in the cell to different states or "textures" by applying an electric field. The cell is made by sandwiching cholesteric materials between two substrates or surfaces, at least one of which is transparent. A "display" is then made by coupling the cell to the electrical "driving" apparatus - usually consisting of a power supply and other electrical components and circuitry which can apply a "pulse" or a waveform across the cell so as to cause molecules in the cell to adopt a certain "texture." In practical terms, this means that a cholesteric liquid crystal cell made be used to display an image (numbers, letters, pictures) in response to the electrical field applied by the "driver."

LCDs have multiple uses, from small displays for cellular phones and calculators to large billboards, and cholesteric LCDs are but one of many types of LCDs. Other types include Twisted Nematic ("TN") LCDs, Super Twisted Nematic ("STN") LCDs, and Active Matrix displays ("AMLCDs"). However, cholesteric LCDs have certain characteristics that set them apart from other LCDs. For example, the materials in a cholesteric cell, once they have been aligned in a certain state or texture (e.g. displayed an image), will remain in that state or "texture" indefinitely without the need for continued application of an electric field. Due to this "memory" phenomena, cholesteric materials are sometimes said to be "bistable" or "multistable" - that is, the materials will remain stable in more than one texture without an electrical field. Bistability is a *bulk property* of cholesteric materials.

Cholesteric cells and LCDs have been the subject of scientific investigation and research for many years. In the 1960's and 1970's, the Xerox Corporation was particularly active in the development of the technology.[10] Following on the heels of the work of the Xerox Corporation and other pioneers in the field, KSU's Liquid Crystal Institute began promulgating, in a series of patents and publications, the idea that the addition of polymers to cholesteric materials would impart desirable qualities to a cholesteric LCD. To promote its "polymer stabilized" cholesteric technology, Kent published a number of

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10 The Xerox team of scientists and researchers included many well-known inventors in the field, one of whom was Werner Haas. One of the numerous patents issued to Mr. Haas was the Haas '127 patent, the patent which was found by the jury in this case to fully disclose and anticipate the claims of the West Patent. Mr. Haas himself was, in fact, ADS' expert witness at the trial, and his opinions to the effect that the West Patent was invalid due to obviousness and anticipation - set out in a lengthy and meticulous three volume report - were admitted into evidence for the jury's consideration without objection by Kent.

articles and papers demonstrating uses of that technology in devices having potential commercial application.[11] KSU, through a wholly owned corporation, KRC, also entered into a series of commercial ventures with private investors to exploit the "polymer stabilized" technology, one of which was KDS.

The West Patent was issued to KSU on September 26, 1995 and thereafter transferred to KRC and then licensed to KDS. It represented a significant departure from other patents obtained by KSU. Whereas several of KSU's prior patents in the field of cholesterics had touted the alleged advantages of adding polymer to the cholesteric materials, the West Patent cited the many benefits of *not* adding polymer, and the claims of the patent were directed solely to "polymer free" cells (A52-A64). However, such "polymer-free" technology was anything but new. Scientists and researchers who were working in the field long before KSU obtained recognition with its "polymer stabilized" technology , including Mr. Haas (see n.10, *supra*) and other members of the Xerox team, had been utilizing "polymer-free" cells. Indeed, before KSU arrived on the scene extolling polymer technology, almost all work in the field was done with cells not containing such materials.

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11 One of these was an article printed in a 1992 edition of a periodical known as "Japan Display" (the "Japan Display Article") - a publication which was admitted into evidence at trial (Exhibit 30) and had some relevance to the claims of the former ADS employee, Mr. Zhou. Zhou claimed that the critical piece of information that ADS previously did not have, and which was obtained by taking the photograph of the copyrighted Kent device, was the part number for the driver chips used by Kent (A79-A81), and that ADS, armed with these part numbers (Supertex HV6008PG) obtained the tools it needed to manufacture a "driver." However, in the Japan Display Article, Kent had freely revealed to the entire display industry that it was utilizing the Supertex HV6008 chips in its cholesteric LCDs, and had shared this information with the industry *more than one year prior to the alleged photographing incident* !.

After the West Patent had issued, Kent representatives attended a trade show for the Society for Information Display ("SID") conference in May, 1996, and there saw ADS demonstrating a cholesteric LCD module utilizing a cell without polymer. Shortly thereafter, the litigation between ADS and Kent began.

At the trial, it was undisputed that: (1) neither the cholesteric chemicals nor the mixtures used for the displays were invented by Kent; (2) the structure and composition of the cell, including the use of cholesteric mixtures in the cell, were well known in the industry long before the invention claimed in the West Patent; (3) the West Patent (like the accused ADS device) did not make use of polymer; and (4) the West Patent did not include or claim any particular type of circuitry or driver. The West Patent merely claimed a certain type of "electric field pulse" to drive so-called "polymer free" cells, regardless of how that pulse was generated.[12] Based upon the opinions of Mr.Haas, ADS' expert, and other witnesses, the jury found by "clear and convincing evidence" that the claimed invention of the West Patent - essentially, the combination of the described "pulse" and a "polymer-free" cell - was not only fully disclosed and anticipated by the Haas '127 Patent, but would have been obvious to one of ordinary skill in the art based upon the Haas '127 patent and other patents and publications extant in the field (A47-A51). The jury also found unpersuasive Kent's claims that ADS infringed the West Patent (*Id.*).

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12 Pursuant to this Court's ruling in Markman v. Westview Instruments, Inc., 517 U.S. 370 (1996), the West Patent's claims were construed by the court. Under the Claims Construction: (1) the West Patent was limited to polymer-free LCDs, i.e., LCDs that did not include polymers in the cholesteric mixtures; and (2) no special driver or driver circuitry was required to drive or stimulate the LCDs. (A52-A64 [claims chart prepared from Markman rulings]). This construction was never disputed by Kent until the jury rendered its verdict..

REASONS FOR GRANTING THE WRIT

The Court should grant the writ for one reason: to prevent trespasses by the intermediate appellate courts upon territories that have long been preserved for District Courts and juries. By issuing its Opinion, the Federal Circuit has asserted a dominion over these lands in a manner so hostile, open, and notorious that, if not now curtailed by this Court, might later support a claim by that court and its sister circuits that they have acquired the right to remain there through adverse possession. It is the province of District Courts, not appellate courts, to resolve Motions for New Trial. It is the province of juries, not appellate courts, to determine the weight and persuasiveness of evidence presented to them. It is the province of District Courts, not appellate courts, to decide how to best exercise the "inherent power" they possess to *manage their own affairs*. And it is the duty of this Court to disapprove of the Federal Circuit's intrusions into these core functions of District Courts and juries, in order to keep intact the well-defined boundaries between juries, District Courts, and appellate courts that the Seventh Amendment and long-standing rules of appellate review were promulgated to preserve.

A. It is the Province of District Courts, Not Appellate Courts, to Resolve Motions for New Trial.

Motions for new trial for "newly discovered evidence" have long been commended to the sound discretion of District Courts. Such motions, by their very nature, must be decided on the basis of all the evidence presented at trial. The trial judge will ordinarily have great familiarity with that evidence by virtue of the fact that the judge has presided over the trial, heard the evidence as it was adduced, and observed the demeanor of the witnesses and parties. Thus that judge, in sharp contrast to a justice of an appellate court, has a unique ability to pass upon the merits of such a motion.

Because overturning a jury verdict is such an extreme measure, the elements of proof pertaining to a motion for new

trial for "newly discovered evidence" are necessarily demanding. First, the trial judge must be satisfied that there is, in fact, evidence of which the movant was unaware during the trial.[13] A district court must always be wary of a claim that there is "new" evidence that the jury should have heard, and at least entertain the possibility that the motion is being advanced as a surrogate for a right to contest the jury verdict that has been previously waived - a concern that is particularly weighty in cases, such as this one, when the movant *failed to move for JMOL at trial.* Second, the court must be satisfied that the alleged "new" evidence would have *probably changed the outcome of the case* if it had been received into evidence at trial [14] - an inquiry which requires the use of all the judge's familiarity with the case and which must determine whether the evidence would truly have made a difference or if, to the contrary, it is merely "cumulative or impeaching" in nature.[15] Finally, the district court must be

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13 Acosta-Mestre v. Hilton Intern of Puerto Rico, 156 F.3d 41, 56 (1st Cir.1998); Duffy v. Clippinger, 857 F.2d 877, 879 (1st Cir. 1988); Wolfgang v. Mid-America Motorsports, Inc., 111 F.3d 1515, 1529 (10th Cir. 1997); Joseph v. Terminix Int'l Co., 17 F.3d 1282, 1285 (10th Cir. 1994)(evidence must be discovered "since the trial"), MOORE'S FEDERAL PRACTICE, ¶ 59.08 [4] (1987 & Supp.).

14 Strickland v. Washington, 466 U.S. 668, 693 - 4 (1984) (discussing traditional test for newly discovered evidence); Diaz v. Methodist Hospital, 46 F.3d 492, 495 (5th Cir. 1992); Farm Credit of Texas v. Guidry, 110 F.3d 1147, 1154 (5th Cir. 1997). To meet this requirement, the movant must convince the District Court that the evidence *more likely than not* would have caused a different result. Strickland, supra. Under this standard, it is not sufficient to show that the omission of the evidence merely had some "conceivable" impact on the outcome or "impair[ed] the presentation of the defense." *Id.* (comparing traditional "outcome determinative" test with other, more lenient standards).

15 The requirement that the alleged "new" evidence not be "cumulative" would seem to be merely a corollary of the requirement that the evidence would be outcome determinative. If the evidence is cumulative - that is, the

satisfied that the movant's ignorance of the evidence was excusable and that it exercised "due diligence" to obtain and present the evidence at trial.[16]

The demanding test for "newly discovered evidence" motions presupposes that it will be administered by a judge who is knowledgeable of all the evidence presented to the fact-finder and the facts and factors that likely contributed to the verdict. Without such knowledge, a court simply cannot make a proper, legitimate determination of whether or not the alleged "new" evidence would have "probably changed the outcome" if admitted at trial. To decide whether the evidence would have been "outcome determinative," while maintaining proper deference to the jury's unquestionable right to determine the persuasiveness of evidence, the District Court must begin with the premise that the jury's verdict is conclusive as to the weight and credibility of the evidence *actually presented to it.* Then, it must theoretically add the alleged "newly discovered" evidence into the mix of the evidence presented at trial on both sides of the issue in question, and make a delicate guess - albeit an educated one based upon actual exposure to the testimony and the case as it was presented at trial - as to whether the jury would likely have weighed the facts differently and reached a different result had such "new" evidence been before it.

For these reasons, it has long been recognized that the trial judge - having been intimately involved in the case by presiding over the trial - is in the best possible position to decide the effect that the "newly discovered" evidence would have had

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the same or similar to evidence already heard by the jury at trial - it can hardly be said that the admission of such evidence would probably change the outcome.

16 Diaz, *supra;* Owens v. International Paper Co., 528 F.2d 606, 611 (5th Cir. 1976). *See also* Wright & Miller, FEDERAL PRACTICE & PROCEDURE, § 2802 (West 1995).

upon the jury if presented at trial. *See* Johnson, 327 U.S. at 111-112.[17] No matter how much time it is willing and able to devote to a close scrutiny of a cold trial record, an appellate court can never begin to approach a capability equal to that of the trial judge to decide whether certain evidence would or would not have made a difference at a trial.

Due to the clearly superior ability that a trial judge has to determine the probable impact of alleged "new" evidence, under the common law a motion for new trial alleging the existence of such evidence was regarded as one addressed to the sole discretion of the trial judge, the exercise of which could not be reviewed on appeal. Kerr v. Clampitt, 95 U.S. 188, 189 (1877). This rule, as previously recognized by this Court, was carried over into and made part of American jurisprudence. *Id.*; Newcomb v. Wood, 97 U.S. 581, 583 - 4 (1878); Fairmount Glass Works v. Cub Fork Coal Co., 287 U.S. 474, 481-2 (1933). Thus, appellate scrutiny of such a decision by District Courts is not only inherently limited, but constrained by the Seventh Amendment's Reexamination Clause.

In its recent decision in Gasperini v. Center for Humanities, Inc., 518 U.S. 415 (1996), this Court authorized federal appellate court review of the denial of a motion for new trial for excessiveness of damages, at least when such review was undertaken in order to comply with a state substantive law (applicable under Erie) and limited to a deferential "abuse of discretion" standard. It is fairly debatable whether Gasperini can be read to apply to other types of motions for new trial, or to

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17 District Courts are also, by their nature, much better suited that appellate courts to resolve factual questions such as whether the evidence was in fact discovered only after the trial by the moving party, and whether that party exercised due diligence in obtaining and presenting the evidence. Fact finding has always been regarded as the business of trial courts, not appellate courts. *See* DeMarco v. United States, 415 U.S. 449, 450 (1974).

authorize a type of appellate "abuse of discretion" review not previously contemplated in the law.[18] But neither Gasperini nor any other decision from this Court permits application of a *de novo* standard of review. Nor does the power to conduct an "abuse of discretion"review embrace the authority to substitute appellate court findings for those of the District Court. Johnson, 327 U.S. at 111.Rather, in the matter of motions for new trial for "newly discovered" evidence, the District Court's discretion is so broad that an "abuse" of it can be found only in a very limited number of defined circumstances, none of which was even arguably present here.

In Johnson, this Court articulated rules which, if they had been heeded by the Federal Circuit, would have precluded it from entertaining Kent's appellate complaints. There, this Court stated unequivocally that an appellate court should not undertake the task of reviewing an order denying such a "newly discovered evidence" motion "when such review is sought on the alleged ground that the trial court made erroneous findings of fact." 327 U.S. at 111. In fact, the Court went further, suggesting that an appeal which merely attacked such factual determinations was "so devoid of merit that it should [be] dismissed." *Id.* Addressing the argument in that case that the District Court did "abuse its discretion," and the appellate court's purported application of the "abuse of discretion" standard,[19] the Johnson Court observed that the trial judge made no findings of fact which were "wholly unsupported" by the

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18 *See* Gasperini, 518 U.S. at 457-8 (Scalia, J., joined by Rhenquist, C.J. and Thomas, J., dissenting) (appellate review of denials of motions for new trial has been "'accomplished by a blizzard of dicta' that, through repetition alone, has 'given legitimacy to a doctrine of doubtful constitutionality.'")

19 In Johnson, as in this case, the circuit court referenced an "abuse of discretion" standard but made no attempt to actually apply it. Here, as in Johnson, the circuit court's reference to such a standard does not serve to disguise the analysis it actually employed.

evidence, and appeared to have given the motion his "careful and honest consideration". 327 U.S. at 112. On the basis of those conclusions by this Court, the "abuse of discretion" claim was rejected. Thus, under Johnson, when the record reveals that a district court has made findings that have some support in the evidence, given the motion adequate consideration, and committed no error of law,[20] any claim that it has "abused its discretion" is specious.

In a proper application of the "abuse of discretion" standard articulated in Johnson, the focal point of an appellate court must be the reasoning process by which the district court arrived at it findings, because the *findings themselves are not reviewable*. In this case, however, the Federal Circuit never seriously undertook the task of addressing what the District Court actually decided and analyzing whether its findings were "wholly unsupported."[21] Moreover, the Federal Circuit's analysis assumed at its very outset - without any explanation or discussion of the matter - that the Zhou deposition transcript did in fact constitute "newly discovered" evidence.[22] Throughout

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20 The Johnson Court, citing the circuit court's previous opinion in the matter when the case was earlier before that court, noted the language that a decision is an "abuse of discretion" when reached "'arbitrarily, capriciously, or in the misapplication of any rule of law." 327 U.S. at 109.

21 The Federal Circuit's Opinion launched headlong into a discussion of the merits of Kent's motion and reached conclusions favorable to Kent on obviousness (A22-A27), without first addressing the District Court's rationale and determining whether the District Court's findings were "wholly unsupported." Indeed, the primary basis for the District Court's rejection of the motion - that the Zhou deposition was cumulative - was not analyzed by the Federal Circuit's Opinion until *after* it had already reached its conclusions that Kent was entitled to relief (A27), and the rest of the District Court's observations were *never discussed at all.*

22 The court announced that it would determine "whether *the newly discovered evidence* is potentially outcome determinative" by reference to

the entire course of the discussion in which it analyzed the motion and found Kent entitled to relief (A22-A29), the Federal Circuit never reached *any* conclusions that the District Court abused its discretion *in any respect*. Thus, the Federal Circuit did not apply the "abuse of discretion" standard posited in Johnson, but rather, utilized a standard condemned in Johnson.

That is bad enough, and is certainly grounds for reversal. But what is even more unacceptable is the methodology by which Federal Circuit *arrived at* its *de novo* findings. The technique employed by the Federal Circuit in analyzing Kent's motion, through its inherent limitations, resulted in findings which were not even true "substitutes" for the District Court's findings, but rather, intrinsically flawed surrogates of them

That technique is evidenced in the Federal Circuit's analysis of Kent's motion as it pertained to both obviousness and non-infringement. In resolving *de novo* the issue of whether the so-called "newly discovered" evidence was controlling on the question of obviousness, the Federal Circuit's analysis began with the simply astounding proposition that the court's job was one of "measur[ing] whether the newly discovered evidence is potentially [sic] outcome determinative by reference to [its own] obviousness jurisprudence" (A23). It then surveyed its own decisional law, summarized the contents of the Zhou deposition, and then, merely *on the basis of its own prior opinions and the so-called "newly discovered" evidence considered in isolation from all other evidence*, concluded that the Zhou deposition was "*potentially* outcome determinative" (A23-A25, emphasis added). The jury verdict of obviousness was thus jettisoned, along with the District Court's decision denying Kent's motion, not because the Zhou testimony somehow outweighed the compelling testimony of all the other witnesses at trial (such as the three-volume report of Mr. Haas and his live testimony),

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[its] obviousness jurisprudence.") (A21,*emphasis added*).

but because "[Federal Circuit] caselaw supports Kent's view that evidence of failed attempts by others *could be* determinative of the issue of obviousness" (A24, emphasis added), and because ADS' alleged "wholesale copying of the claimed invention" was allegedly *"persuasive"* and "*compelling*" under prior Federal Circuit decisions (A23,A24, emphasis added).[23] Completely absent from the Federal Circuit's analysis and conclusion was an answer to the penultimate question that the District Court alone, with all of its familiarity with the trial proceedings, had the ability to answer: given the evidence of obviousness adduced by ADS and the jury's apparent rejection of Zhou's trial testimony, would more testimony from the same apparently disbelieved witness have likely made a difference *to the jury that resolved the case ?*

The Federal Circuit's analysis of the motion as it related to infringement was conducted in the identical fashion. Again, the court began its discussion by referring to its own jurisprudence as to the elements of infringement, looked only to the Zhou deposition and no other evidence pertaining to the issue, and concluded that the Zhou deposition, although not itself *even relevant to the issue*, was somehow at the same time

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23 The Federal Circuit attempted to buttress its decision that the Zhou deposition had some importance by engaging in completely improper speculation as to what went on behind the closed doors of the jury room, and by asserting (with no possible factual foundation) that the jury was, at some point, in "equipoise" during its deliberations. (A24). Such reasoning only serves to show how completely that court insinuated itself into the core functions of the lower court and jury. The fact that he jury sent a message to the District Court that it could initially not resolve anticipation and obviousness lends no support to the notion that the Zhou deposition would have made a difference, and the fact that it initially could not reach unanimity does not mean that the jury was, then or ever, in "equipoise" on the issues. What it does signify, however, is that the jury had no apparent difficulty reaching unanimity on the issue of infringement in ADS' favor.

"compelling evidence relating to infringement" which would "suppor[t] a claim" of infringement under the doctrine of equivalents"(A28). In effect, the court reduced the complex, fact-intensive question of whether there was any "outcome determinative" new evidence into the abstract (but, for an appellate court, much more manageable) query of whether the so-called "new" evidence, considered in a vacuum, was *legally relevant*.

Thus, the Federal Circuit's Opinion does not merely evidence an improper *de novo* review of the District Court's findings, but announces a completely new way to go about supplanting those findings. Unlike the time-honored, laborious manner through which district courts have traditionally decided "outcome determinativeness"- by considering all the evidence offered at trial in the light most favorable to the verdict - the Federal Circuit's method is peculiarly adapted for easy use by appellate courts.[24] To decide the issue, the court need not fret over a voluminous, unwieldy trial record and concern itself with the deference owed to a jury verdict. It has only to decipher the legal relevance of the alleged "new" evidence. If the appellate court's case authority indicates that a witness' "new" testimony may be "compelling" or "persuasive," then that testimony has a sufficiently "outcome determinative" ring to it to warrant

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24 *Cf.* Stonewall Ins. Co. v. Asbestos Claims Mgmt. Corp., 73 F.3d 1178, 1199 (2nd Cir. 1995) *modified* 85 F.3d 49 (2nd Cir. 1996). In Stonewall, the Second Circuit alluded to the extraordinary demands placed upon an appellate court by appellate challenges to the denials of motions for new trial. To. properly consider such appellate complaints, the appellate court would be *required* to conduct an exhaustive consideration of all the evidence adduced on the issues and the elusive factors of weight and credibility, and for that very reason, the Second Circuit has routinely declined to even review such challenges. *Id.*.;Robinson v. Cattaraugus County, 147 F.3d 153, 160 (2d Cir. 1998); Haywood v. Koehler, 78 F.3d 101, 104 (2d Cir. 1996).

discarding a jury verdict - regardless of how strong the countervailing might be and notwithstanding the fact that the jurors heard and rejected the witness' "old" testimony.

Because the Federal Circuit was, by its own tacit admission, incapable of rendering what is demanded of a district court in the consideration of such a motion (a decision based upon all the evidence adduced at trial), it was ultimately not up to the task of answering the critical question of whether the Zhou testimony, if admitted at trial, would *probably have influenced the jury to decide the case differently*. Since its focus was upon its own decisions and the Zhou deposition considered in a vacuum - and since it failed to consider (or even mention, for that matter) all the evidence of obviousness and non-infringement standing against Zhou's deposition - the Federal Circuit had no means to decide, and in fact did not decide, that the Zhou deposition testimony would *probably* affect the outcome of *this case*. All the Federal Circuit could say, at the end of the day, was that the Zhou deposition was "potentially outcome determinative": a holding that has never been regarded as an adequate reason to disturb a jury verdict.[25]

B. It is the Province of Juries to Determine the Weight and Persuasiveness of Evidence They Have Heard

The Federal Circuit's resolution of Kent's motion suffers yet another serious defect: a federal appellate court cannot reexamine any facts tried to a jury, except in such manner as was allowed by the common law of England in effect at the time the

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25 *See* Strickland, *supra;* Methodist Hospital, 46 F.3d at 495; Guidry, 110 F.3d at 1154.(requiring determination that evidence was probably outcome determinative of the case). In this case, the District Court certainly made no finding that the Zhou deposition would probably have been "outcome determinative" and neither, in the final analysis, did the Federal Circuit. Thus, the jury verdict was vacated without a finding of an essential element of any motion for new trial for "newly discovered evidence."

Constitution was enacted and ratified. U.S. CONST., AMDMNT 7; Gasperini, 518 U.S. at 432-4.

Not surprisingly, Zhou's deposition covered many of the same matters as Zhou's testimony at trial (A69-A103).[26] Granted, the Federal Circuit attempted to deflect the force of this fact by parsing the Zhou deposition to come up with a handful of matters that Kent's counsel did not (for reasons unknown) cover in her trial examination of Zhou (A27). But the Federal Circuit did not say, and could not have said on this record, that *the matters in the deposition that Kent's counsel failed to cover in her examination of Zhou at trial* were (to use the court's terminology) "potentially outcome determinative." Rather, the Federal Circuit improperly looked to the Zhou deposition *as a whole* (indiscriminately including in its analysis those parts of the deposition identical to Zhou's trial testimony) and found that the "*constellation of facts*" in Zhou's deposition was "potentially" determinative (A24, emphasis added).[27] Thus, with respect to obviousness, the court held that "Zhou's deposition furnishes persuasive evidence..." (A23); that "Zhou's deposition testimony constitutes highly probative evidence...;" and that it "provides compelling evidence of nonobviousness by illustrating ADS's wholesale copying" (A24) - without the slightest attempt to make any distinction between the facts related in that deposition that the jury heard from Zhou (A69-

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26 As the District Court noted, "Zhou testified in relevant part that Zibi [sic,Zvi] Yaniv brought the copyrighted prototype to ADS. That Jimmy Gau [sic, Gao] told ADS employees to take a picture of the prototype while Yaniv was absent, and that ADS only learned how to drive the display after it had knowledge of the defendant's technologies." (A35)

27 By definition, those matters in the Zhou deposition that *were covered by his trial testimony* (or, for that matter, the testimony of *any* witness) could not constitute "newly discovered" evidence, and thus no matter how "compelling" these facts might have seemed to the Court under its caselaw, they could not support relief under Rule 59.

A103) and others, and the facts (*if any*) that the jury did not hear. Indeed, the Federal Circuit found particularly compelling, under its caselaw, Zhou's testimony "that ADS built its electrical driver by disassembling Kent's prototype, photographing its features, and then using the photograph essentially as an instruction manual, " (A25), even though the jury heard those very facts from that same witness (A73-A85) and apparently found them anything *but* compelling.

With respect to infringement, the Federal Circuit relied upon Zhou's allegations that: (1) "the design of ADS's device was directly 'based upon' Kent's cholesteric material formula and its *electrical driver circuitry;*"(2) "Kent's and ADS's 'chemistry mixture[s] and the way they make the cell are the same;' and (3) " ADS failed to design a device that was different from the claimed invention" (A28, emphasis added). However, all of these same matters were encompassed within either Zhou's trial testimony or the testimony of other witnesses never mentioned by the court.[28] Further, by its explicit reliance on Zhou's testimony concerning the copying of the circuitry - a subject covered quite extensively in Zhou's trial testimony (A73-A85) - the Federal Circuit made clear that it was looking to Zhou's deposition *as a whole* - the "constellation of facts" in that deposition, as the court put it - rather than just that testimony which Kent's counsel did not elicit from Zhou at trial.

However, federal appellate courts have no right to assess the weight, persuasiveness, or credibility of evidence presented

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28 The Federal Circuit's entire approach to the issue of "cumulativeness" was flawed. The court seemed to suggest that if there was some matter in the Zhou deposition that was not addressed by *Zhou* at trial, then that matter could not be "cumulative" of the trial evidence. (A27, emphasizing that the jury did not hear Zhou's statements and "admissions"). Cumulativeness is determined by the substance of the evidence, not its source. The jury may not have heard all the facts in the Zhou deposition *from Zhou*, but they certainly heard them from others.

to a jury, and to use those determinations as a means to set aside jury verdicts.[29] To do so, particularly in the context of reviewing a denial of a motion for new trial, constitutes the exercise of an appellate review that is precluded by the Seventh Amendment. Fairmount Glass Works, 287 U.S. at 481-2. And it cannot make any difference that the *source* of the facts relied upon by the appellate court (here, a deposition transcript) is different than the *source* of the facts heard by the jury (here, the witness himself and others). See n. 28, *supra*. In the final analysis, the Federal Circuit reversed a jury verdict simply because Kent's appellate brief identified evidence from a source outside the trial record which was purportedly "persuasive" under the circuit's law - an outcome that was nothing less than a substitution of a Federal Circuit Opinion for a jury verdict resulting from a process that cannot even be called appellate review.

C. A Proper Application of the Johnson Standard Would Have Barred any Relief to Kent

This unfortunate result could have been avoided simply by applying the standard of review required by Johnson and by resorting to some of the principles of "legal relevance" upon which the Federal Circuit improperly rested its entire analysis.[30]

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29 An appellate court "is not empowered to sit as a super jury, substituting its view for the jury's assessment of the weight and credibility to assign to [conflicting evidence]." Bartley v. Euclid, Inc., 158 F.3d 261, 270-71 (5th Cir. 1998) *reversed on other grounds* 180 F.3d 175 (1999) (reh'g en banc), *citing* Gutierrez v. Excel Corp. , 106 F.3d 683, 687 (5th Cir. 1997)

30 The Federal Circuit seemed to assume that since evidence which is legally irrelevant can never be outcome determinative, the converse was true (i.e., that any legally relevant evidence would satisfy the requirement of "outcome determinativeness."). While a "legal relevance" test may be used (and should have been used here) to exclude evidence from consideration, it can never serve as a basis to hold that certain evidence,

Under Johnson, the Federal Circuit should first have examined in detail what the District Court said. The District Court's primary (but by no means only) reason for denying the motion was that the evidence was "cumulative." The Federal Circuit need not have proceeded beyond this finding to affirm the District Court, because the finding was certainly not "wholly unsupported." Johnson, 327 U.S. at 112.

The Federal Circuit held, with respect to obviousness, that there were three relevant areas covered by the Zhou deposition : ADS' "failed attempts" to design a driver and a polymer-free cell, ADS' copying of the drive circuitry, and ADS' use and experimentation with the "formula" and a "powder." (A23-A25). Dr Wu testified at trial (as did Zhou) that ADS had tried repeatedly, without success, to design a driver. Dr. Wu also testified as to numerous failed attempts to make a stable polymer-free cell.[31] The copying of the KDS copyrighted drive circuit was covered extensively by Zhou's trial testimony, and also addressed by Dr. Wu. Dr. Wu testified that he read the Kent publications on polymer-stabilized technology, and experimented with the "formula" (by which to synthesize polymer through use of a monomer powder). Thus, the District Court's conclusion that such testimony was cumulative was clearly *not* "wholly unsupported."

With respect to infringement, the Federal Circuit held that the Zhou deposition testimony was somehow material (though not itself relevant) because it "directly addresses how ADS's electrical driver circuitry was designed and implemented" and shows that "the way in which ADS's device causes the liquid crystal to switch"(A28). The first of these matters was

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considered in a vacuum, is determinative.

31 Indeed, when questioned by the District Court at the hearing on the motion for new trial as to what was "new" in the Zhou deposition, Kent's counsel never claimed that the testimony of such "failed attempts" was new.

covered extensively in both Zhou's trial testimony (A70-A103) and in the testimony of Dr. Wu. Extensive evidence concerning the way in which "ADS's device causes the liquid crystal to switch" was presented by Kent's *own expert*, Dr. Crawford, who examined ADS' device in detail and testified at trial. Again, the District Court's finding that the evidence was "cumulative" found ample support in the record.

If the Federal Circuit had needed to look beyond these findings and scrutinize the District Court's decision further in order to affirm it, it would have discerned that the District Court's other findings also had support in the record. In addition to finding the evidence cumulative, the District Court expressed serious doubts as to whether Kent had established the requisite nexus between the purported "new" evidence and the claims of the West Patent.(A37) If the Federal Circuit had simply perused the undisputed Claims Construction (A52-A64) and reviewed the testimony of Dr. West,[32] it would have seen that these doubts were well-founded. The claims of the West Patent did not, as a matter of law, encompass any particular type of drive circuitry, particular types of cholesteric materials, monomer powder used to synthesize polymer, or "formulas" for such polymer materials.[33] Kent never construed the West Patent to encompass such matters until after the jury verdict - when it was forced to concoct some means to attack it due to its own decision not to (or failure to) move for JMOL at trial.[34]

Had the Federal Circuit needed to examine still further the findings of the District Court to discern that there was no "abuse of discretion," it would have discovered findings by the

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32 See n.6, *supra*.

33 See n.12, *supra*; see also A52-A64 (Claims Construction)

34 The Claims Construction adopted by the District Court (A52-A64) was almost completely derived from *Kent's* proposed construction of the West Patent.

District Court's that were simply unassailable on this record: (1) that Kent was not prevented from eliciting at trial any relevant facts Zhou knew; and (2) Kent was not materially prejudiced by the non-production of the deposition.(A38,A39). As the party with the burden of proof on the motion, Kent was clearly required to show that the evidence was in fact "new" and unknown to it during the trial. Not a single affidavit from any of Kent's numerous attorneys was tendered to the Court on this matter, and the silence of Kent's two lead trial attorneys, Mr. Sharpe and Ms. Gebauer, was quite telling. Zhou testified at trial that he had "three of four" contacts with Kent counsel prior to being called as a witness(A103).Given the multiple opportunities to interview the witness, the fact that the witness was actually called to the stand at trial, Kent's knowledge of the deposition (A85-A88), and the silence of Kent and its counsel on the question of what they knew, the District Court's findings in this regard were amply supported.

Further, if the Federal Circuit had been willing to put its "legal relevance" test to a *proper* use - as a tool to weed out from consideration evidence which had *no possible bearing* on the case - it would have excluded the entire Zhou deposition.[35] Evidence of copying has no legal force or effect unless the copyist possesses skill in the art pertaining to the object of copying. Warner-Jenkinson Co. v. Hilton Davis Chem. Co., 520 U.S. 17, 35 - 37 (1997). There was no evidence to show

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35 As the Federal Circuit itself noted, the evidence of alleged copying could not be relevant to *infringement*. (A28). Since the alleged use of Kent's technology occurred almost *two full years* before the issuance of the West Patent, it could not constitute either direct or circumstantial evidence of *patent infringement*, even if the West Patent *had* later issued with claims encompassing the copied technology. *See* 35 U.S.C. § 154(a)(2) (term of patent begins on date of issue) and 35 U.S.C. § 271(a) (infringement consists of making, using, selling, or offering to sell the patented invention during the term of the patent).

that any of the persons involved in the alleged copying of the KDS circuitry had any skill whatsoever in the field of electrical engineering. Indeed, had they possessed such skill and still been interested in determining what driver parts Kent used, they would have simply consulted the Japan Display Article (see n.11, *supra*). Further, to meet even the minimum standard of relevancy, the copying must be directed to the *claimed invention* of the Patent. Despite its repeated assertions that ADS copied the "claimed invention," the Federal Circuit apparently never consulted the Claims Construction, and, had it done so, should have recognized that such assertions were wholly unfounded.

In short, had the Federal Circuit applied the Johnson standard of review and utilized standards of relevance properly, it would have been compelled to conclude there was no "abuse of discretion." Because it failed to do, its judgment must now be reversed.

D. It is the Province of District Courts to Decide How to Best Exercise the "Inherent Powers" They Possess to Manage Their Own Affairs.

To shore up its decision to grant Kent a new trial for "newly discovered" evidence, the Federal Circuit granted the same relief as a "sanction" under "inherent powers."[36] As a prelude to its discussion of sanctions, the Federal Circuit conceded that the regional law of the Fifth Circuit governed, and that "the threshold for the imposition of such sanctions is high" (A30). Bound, as it admitted it was, to apply the mandate of this Court in NASCO and Fifth Circuit precedent such as Chaves v.

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36 Two of the three recipients of this relief had not even requested it. KSU and KRC abandoned or withdrew their motion for sanctions in the District Court, and thus, unlike KDS, could not and did not raise any sanctions issue in their Notice of Appeal. (A34,A65-A67) Therefore, the Federal Circuit lacked jurisdiction to award them any such relief by appeal. Torres v. Oakland Scavenger Co., 487 U.S. 312 (1988).(notice of appeal is jurisdictional).

M/V Medina Star, 46 F.3d 153, 156 (5th Cir. 1995), the Federal Circuit also correctly noted that "*the district court* must make a specific finding of bad faith" in order for sanctions to be imposed. (A30, emphasis added). Having correctly stated the applicable law, the Federal Circuit promptly abdicated its duty to apply it.[37]

The Federal Circuit arrived at its intended destination (an alternative ground for its decision to grant a new trial) by treading across forbidden territory: it entered what it had already acknowledged was the District Court's realm by, rendering *its own de novo finding of bad faith conduct* - a finding it acknowledged must be made by a district court and one that the District Court had *refused* to make with an express holding that there was "no evidence to support"it.(A39). Then, having improperly trespassed onto territory reserved to the District Court, it *imposed its own sanctions* based on that "finding," even though the alleged bad faith conduct occurred in *another court.*

The putative basis for the Federal Circuit's *de novo* finding of bad faith conduct was its conclusion that various acts by ADS' counsel constituted willful concealment of material evidence.[38] The Federal Circuit, however, failed to even consider the record before the District Court, which included extensive evidence that: (i) the Zhou deposition and photograph were *not* covered by any extant discovery requests; (ii) that there was a legitimate and good faith reason for requesting the termination

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37 This is reminiscent of the court's discussion of the motion for new trial. At the outset of that analysis, the court stated that it was bound to apply an "abuse of discretion" standard (A22), but then never applied it.

38Those alleged acts included: (i) failing to produce the Zhou Deposition and Photograph; (ii) attempting to terminate the Zhou Deposition and requesting the court reporter not to transcribe the Deposition; and (iii) failing to list Zhou as a person with knowledge of ADS' development of ADS' technology.

of the deposition and asking that it not be transcribed; (iii) that ADS and KDS counsel had agreed that ADS' alleged theft of technology had no bearing on the patent trial; and (iv) that ADS *had listed* Zhou as a person with knowledge of the development of ADS' technology and had provided documents and deposition testimony to show the extent of his knowledge. In light of the restraint imposed on the exercise of inherent sanctions powers by this Court in NASCO, the District Court wisely concluded that it should not make a finding of bad faith on the record before it.[39]

Even in the face of all this, the Federal Circuit still managed to find bad faith where the District Court had found none. It did so not by resort to consideration of any evidence in the record (the evidence which had led the District Court away from such a finding), but by converting the District Court's self-described "unsubstantiated suspicions" into a surrogate for a district court findings of "bad faith," and by then adopting those suspicions as the basis for its own *de novo* finding.

This process goes far beyond the pale of any legitimate appellate review, and in employing that process, the Federal Circuit violated both the letter and spirit of NASCO. It disobeyed the letter of NASCO by entering its own finding of bad faith despite the District Court's conclusion that there was insufficient evidence to support it; and it offended the spirit of NASCO by sending a message to all district courts whose decisions may be reviewed by the Federal Circuit to either impose sanctions freely and liberally based on their "unsubstantiated suspicions" of bad faith conduct, or face a reversal. This can only encourage courts to treat their inherent

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39 Specifically, the District Court noted that "unsubstantiated suspicions standing alone are not sufficient to justify the imposition of sanctions." (A38) and that, if the matter was to be pursued "further proceedings [would be] necessary in order to develop an evidentiary record" to determine whether sanctions or disciplinary action could be imposed.(A39).

authority as if it were a "broad reservoir of power, ready at an imperial hand.." *Cf.* NASCO, 501 U.S. at 42.

Moreover, the Federal Circuit, by rendering a finding of "bad faith" notwithstanding the District Court's admonition that an evidentiary proceeding would be required, abrogated the protection afforded ADS and its counsel by the Due Process Clause. As this Court concluded in NASCO, it is that Clause which provides the underpinnings of the requirement that courts exercise restraint in both in determining the requisite "bad faith" and in assessing a sanction. 501 U.S. at 50.

Another fundamental flaw in the Federal Circuit's approach to the sanctions issue was the fact that the Federal Circuit took it upon itself to both decide that sanctions were in order, and to select the appropriate sanction, rather than leave the matter to the District Court. The Federal Circuit had no possible grounds for resorting to its own "inherent powers,"and absolutely no right to exercise those of the District Court. "Inherent powers" stem from the "control necessarily vested in courts to *manage their own affairs*." Link v. Wabash R. Co., 370 U.S. 626, 630(1962) (emphasis added). The Federal Circuit identified no conduct of either ADS or its counsel that interfered with the Federal Circuit's ability to manage *its* affairs. Thus, it would appear that the Federal Circuit's "sanction" was either a purported exercise of the *District Court's* "inherent powers" - an exercise of such powers that was undertaken notwithstanding the fact that the District Court had specifically declined to utilize them and found no proper occasion for their use - or a resort to a "broad reservoir"of some previously unrecognized power residing in appellate courts to *interfere with* the affairs of lower courts.

CONCLUSION AND PRAYER

For the foregoing reasons, this Court should GRANT the writ of certiorari to review the judgment of the Federal Circuit, and upon consideration of the case, REVERSE that judgment.

Respectfully Submitted,

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